



Economics Questions By Topic:

**Government Intervention (3.6)
Mark Scheme**

A-Level Edexcel Theme 3

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SECTION A

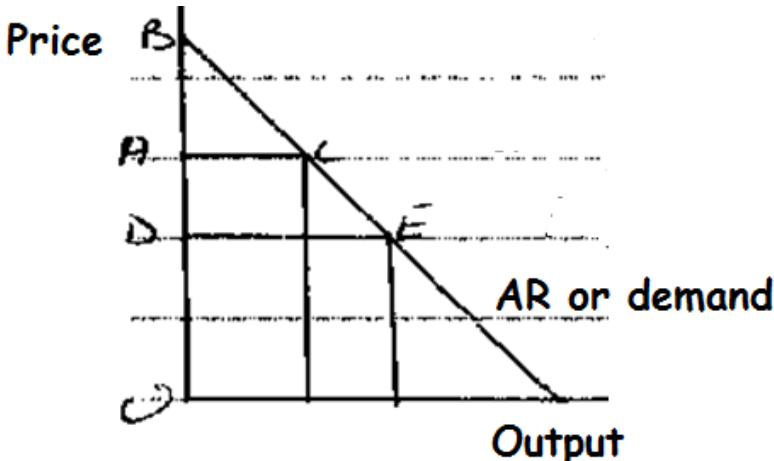
Question Number	Answer	Mark
1	Key: D	(1)
	<p>Definition of a price cap, e.g.: a price cap limits the amount by which firms can increase prices (1)</p> <p>Role of regulator (1) e.g. a surrogate for competition</p> <p>Reason for or function of a price cap (1) e.g. to prevent monopoly exploitation/higher prices, or to stop prices rising more than a certain amount</p> <p>RPI+k or 1% explanation (1) e.g. to allow firms to invest in rail infrastructure</p> <p>Explanation that real terms have had the effects of inflation removed, that is, the RPI element is in the equation so that the inflation impact can be ignored (1)</p> <p>Explanation that nominal terms means current prices, or that prices are rising in line with inflation (1)</p> <p>The reduction in price cap means that the rail operating companies have less scope for raising prices (1)</p> <p>The price cap increases consumer surplus at the expense of producer surplus (1)</p> <p>The regulator perceives that there are efficiency gains to be made/less investment to be made compared to the previous period (1)</p> <p>Knock out e.g. B rise 1% real terms was the annual increase in the previous regulated period not the current period (1)</p>	(3)

Question Number	Mark scheme	Mark
2	Key: E	1
	<p>Definition of market share or high market share (1)</p> <p>Explanation of a demerger beyond 'form two separate companies' (as this is in the question), for example, break up of monopoly, reduce dominance in market (1)</p> <p>Reasons for competition authorities to act/firms may have been exploiting their high market power (hence the need to break them up) (1+1) e.g. to reduce monopoly power, increase contestability, to increase choice, lower prices, reduce inefficiency/x-inefficiency, diseconomies of scale</p> <p>Application to data (1) e.g. Lloyds will compete on the High St with TSB to offer lower prices/better service</p> <p>Role of competition authorities (1) e.g. to protect the consumer, promote competition, act as a surrogate for competition</p> <p><i>Example of knock out marks:</i></p> <p><i>It is not A because a rise in LRAC (diseconomies of scale) is an issue the bank might want to address because of falling profits, but it is not likely to have a damaging effect on the consumer so intervention unnecessary (1)</i></p>	3

Question Number	Mark scheme	Mark
3	Key: A	1
	<p>Definition of performance targets (1) e.g. a level of quality of service that must be met or the firm will be fined, goal for a firm set for the firm, standard of service expectation, objective set for the firm</p> <p>Function of performance targets (1) e.g. they act as a surrogate for competition, or an incentive to become efficient because there is no competition, or to improve customer service</p> <p>Reasons why the fine was needed (1) e.g. x-inefficiency arising from lack of competition /monopoly power reducing incentives restores motivation/deterrent</p> <p>Impact of the fine (1) e.g. acts as a warning to other firms to meet their performance targets</p> <p>Application or example (1) e.g. punctuality of trains is 87% or intended to be 92%, or 5 percentage points below target</p> <p>Problems of efficiency in monopoly identified in diagram (1) e.g. AC rising for x-inefficiency</p> <p>Role of the regulator/ORR (1) e.g. surrogate for competition, promote consumer interests (not increase competition in this case)</p> <p><i>Example of knock out marks:</i></p> <p><i>Not D because a performance target is likely to decrease profits because costs rise</i></p>	3

Question Number	Answer	Mark
4	<p>Correction Option C (1Mark)</p> <p>Definition of contestability e.g. no/low barriers to entry or exit or no sunk costs (1). May be implicit.</p> <p>Reasons why barriers to entry might rise (or reduced exit options) (1 + 1 + 1) e.g. economies of scale, power to advertise, giving firms monopoly power to limit competition or raise prices. The reasons must be linked to contestability not competitiveness.</p> <p>Role of the regulator, e.g. protect consumer interest/welfare (1)</p> <p>Identification that it is horizontal integration (1)</p> <p>Example of knock out: It's not D because the market size could get bigger or smaller It's not B because consumer surplus is likely to fall if prices rise</p>	(4)

Question Number	Answer	Mark
5	<p>Correction Option A</p> <p>Meaning of PFI: major infrastructure/buildings/project/large scale contracts are issued by governments to private firms (1) It is then leased or rented to the public sector (1) over 25-30 years (1) Benefits to the government e.g. – it does not have to borrow this year (off the balance sheet), can spend on current demands, useful in times of fiscal austerity, makes efficient use of specialists, reduces risk for government, leads to more immediate public services, creates competition at point of tendering, “the government’s credit card”(1 + 1 + 1)</p> <p>Costs to the government e.g. - leading to higher overall costs in the long run (1) – these may be incorporated within knock out marks</p> <p>Application to hospitals, e.g. more specialist hospitals or more up to date technology, better quality service(1)</p> <p>Examples of knock outs: It’s not C as PFI will decrease x-inefficiency as there is competition during the tendering process It’s not D as to exit the contract there will be penalty costs It’s not B as the government achieve a lower rate due to carrying less risk</p>	(4)

Question Number	Answer	Mark
6	<p>E</p> <p>Definition of consumer surplus (1);</p> <p>A fall in price makes the area of consumer surplus larger (1);</p> <p>Explanation of role of Ofwat, or regulators in general (1); function of fine as a deterrent (1); explanation of how a price cap works e.g. firm will have to reduce planned charges so that it can no longer earn the monopoly profits (1);</p> <p>Explanation of a <i>local</i> monopoly, e.g. that the firm has a very high degree of market power within a geographical region (1); application that consumers in the Midlands can only buy water from Severn Trent (1);</p> <p>Diagram: shading of area of original consumer surplus (this can count as the definition if not already awarded) (1); new area of consumer surplus, or change in consumer surplus e.g. ACED with comparison with a profit maximising output where $MC=MR$ (1);</p>  <p>Allow other versions of this diagram, involving AR/MR and AC/MC, or demand and consumer surplus in style of Unit 1 paper. Diagram may show fall in price and increase in output as a result of intervention (1) and change in consumer surplus (1).</p> <p>Example of knock out mark: not D because shareholders would be likely to receive smaller dividends.</p>	(4)

Question Number	Answer	Mark
7	<p>D</p> <p>Vertical integration definition e.g. joining with a firm involved at a different stage of the same production process/same industry/same final product (1 mark).</p> <p>Role of Ofgem/regulator e.g. surrogate for competition/to promote competition/act in the consumers' or public interest (1).</p> <p>Explanation: that these firms can control or dominate suppliers or customers/outlets (1 mark) with application or consequence e.g. new firms cannot get onto distribution networks, or other barriers to entry (1 mark).</p> <p>Use of data, e.g. calculation of concentration ratio (1).</p> <p>Example of knockout mark: it is not E because EDF has 24% of the industry, but a legal monopoly is 25% or over (1)</p>	(4)

Question Number	Answer	Mark
8	<p>E</p> <p>Definition or formula of AC or AVC (1) costs per unit, or variable costs per unit</p> <p>Explanation of predatory pricing e.g. losses made in short run to remove competitors or deter new entry (1 mark).</p> <p>Role of OFT/regulator (1)</p> <p>Diagram (1): $AR < AVC$ or $AR < AC$ with loss shown</p> <p>Shut down point: if firms cannot cover AVC they must stop production in the short run (except predator) (1) because they are not making a contribution to fixed costs (1)</p> <p>Illegal (1)</p> <p>Application in the context of bus services (1)</p> <p>Role of fines (1) e.g. as a deterrent</p> <p>Other long run implications, that prices will rise, choice will be reduced, profits will be increased (1)</p> <p>Allow up to 3 marks for the explanation of wrong answers A and D, where candidate has read the question as a limit pricing question, i.e. simply to deter new entrants rather than to force other firms out. In these cases do not award the mark for the key but allow definition of allocative efficiency (if A is chosen) or revenue maximisation (if D is chosen)</p>	(4)

Question Number	Answer	Mark
9	<p>E</p> <p>Explanation of private finance initiative (PFI) or public private partnership (PPP) e.g. meaning that private firms supply major projects (1) that are then rented or leased to the government (1)</p> <p>Profit motive/competition may change behaviour, e.g. the private firm keeps the profits, or they are more efficient in reaching targets than public sector (1)</p> <p>Wider scope of projects because it means that projects that might not have been achievable are more likely to happen, e.g. taxes do not have to rise, there is a budget deficit, national debt(1)</p> <p>Reference to current sovereign debt crises and austerity measures, or other application to current context (1)</p> <p>Higher cost involved than if paid for up front (1)</p> <p>Function of penalties, e.g. if work is not finished in time (1)</p> <p>Allow knockout of B: there are performance targets in the public sector, if backed up with an example (teacher appraisals and NHS waiting list targets) or further explanation of how a performance target can improve efficiencies (1)</p>	(4)

Question Number	Answer	Mark
10	<p>A</p> <p>Definition of monopsony, e.g. single or powerful buyer, (1) role of competition authorities (1), with application to buying of grocery supplies e.g. short shelf life of perishable products, or other supermarket products (1), supplying firms cannot make a profit (1) and explanation of market power, e.g. push down prices, exploitation of suppliers (1). Allow purchasing economies of scale (1). Consequences of monopsony power e.g. passing on lower prices to consumers, farms go out of business, greater profits to supermarkets (1+1) and results of the Commission's findings (1)</p>	(4)

Question Number	Answer	Mark
11	<p>E</p> <p>Definition of performance targeting e.g. a goal is set by government or a regulator for firms to achieve (1). Role of regulator: improving consumer interests or reduce monopoly power or surrogate for competition (1 + 1) Application e.g. number of complaints, reducing queuing time, improved customer service (1) Role of fines as a deterrent through effect on a firms' costs or profits (1)</p>	(4)

Question Number	Answer	Mark
12	<p>B</p> <p>Definition of monopoly power (either legal definition 25%, or 100% of market share), or dominance, market power is high, one seller in the market (1 mark)</p> <p>Role of the Competition Commission (e.g. to increase the level of competition) (1 mark)</p> <p>Application e.g. airlines buying slots at airports (1 mark)</p> <p>Adverse effects on airlines (1 mark) and therefore on consumers (1 mark) and/or competition (higher prices, less choice, reduced consumer surplus) (1 mark)</p> <p>Benefits of the decision, e.g. on consumers (lower prices), the level of competition (1 mark) or contestability (1 mark) increased efficiency (1 mark)</p>	(4)

Question Number	Answer	Mark
13	<p>E</p> <p>Role of Ofwat, e.g. to promote consumer interests or promote competition (1 mark)</p> <p>Private utilities are natural monopolies in local markets (1 mark)</p> <p>Cutting the permitted price increase is a price cap, e.g. RPI - X (1 mark)</p> <p>RPI - X + K allows for investment in the water industry (1 mark)</p> <p>Powers of Ofwat, e.g. levy fines (1 mark)</p> <p>Increased investment is likely to make the firms more efficient (cut costs); this may be shown by a falling costs diagram (1 mark)</p> <p>Consumer welfare improves, e.g. better quality service or reduced water loss (1 mark)</p> <p>Producer profits fall if inefficiency continues, or firm has to cut costs to maintain profitability (1 mark)</p>	(4)

Question Number	Answer	Mark
14	<p>E</p> <p>Definition of market share (1 mark) (e.g. percentage of market sales controlled by a firm)</p> <p>Role of the European Competition Commission or competition authorities generally, to promote competition (1 mark)</p> <p>Calculation of concentration ratio, e.g. 2 firm 90.4%, 3 firm 94.7% etc, or comment that IE has a legal monopoly with 62% of the market (1 mark)</p> <p>Increased contestability, or reduced barriers to entry e.g. removing the pre-installation of the software will mean that more firms will be able to enter the market (1 mark)</p> <p>Existing firms will be able to increase their market share/greater competition (1 mark)</p> <p>Benefits to consumer, e.g. increased speed of browser, more choice (1 mark)</p> <p>Comment on the magnitude of the fine, to show the estimated impact of the damage to the market (1 mark)</p>	(4)

Question Number	Answer	Mark
15	<p>E</p> <p>PFI or PPPs defined as a means of obtaining private funds for public sector projects (1 mark)</p> <p>Use of data or other knowledge that prices charged are often high (1 mark)</p> <p>Identification of reasons for higher prices (e.g. lack of competitive tendering, extortion by owners of finance) (1 mark)</p> <p>Reasons why government continues with PFI despite costs, e.g.:</p> <ul style="list-style-type: none"> • Enables projects e.g. hospitals/schools to be built earlier or at all than would otherwise be possible. (1 mark) • Private sector might be seen to be more efficient than public sector (1 mark); • defers payments for expensive projects (1 mark) • by paying rents or by leasing (1 mark) • lowering borrowing costs (1 mark) • consideration of opportunity cost, e.g. the government's money can be used for other things (1 mark) <p>Example of knock-out mark: Not A because it is hard to predict future costs for major public sector investment projects because there are unknown costs (1 mark)</p>	(4)

Question Number	Answer	Mark
16	<p>D</p> <p>Marks may be awarded for</p> <ul style="list-style-type: none"> • Role of European Commission, e.g. promotes competition, acts as a surrogate for competition • Improving the interest of consumers • Data ref e.g. 75% is a monopoly, or Intel has reduced competition (1 mark) • Intel engaged in anti-competitive practices (1 mark) • Explanation that these practices limit competition (1 mark) • Intel has considerable degree of monopoly power and can, therefore, use this to undermine competitors e.g. collusion (1 mark) • Fine aimed as a deterrent or punishment to other companies from adopting such practices, or other effect on other firms (1 mark) 	(4)

Question Number	Answer	Mark
17	<p>B</p> <ul style="list-style-type: none"> • Role European Commission, to promote competition, surrogate for competition or protect consumer interests • Abnormal profit identified related to monopoly/oligopoly power • Understanding of 'price caps' e.g. lower prices enforced, allow RPI-X (1 mark) • Analysis based on lack of competition in the market (1 mark) • Explanation of impact on consumer e.g. exploitation (1 mark) • Application of data (1 mark) e.g. caps are tightening • Monopoly diagram showing impact on profits of price cap: showing the price cap P2 (1 mark) and impact on profit area or efficiency changes P1BDC to P2GDC (1 mark) 	(4)

Question Number	Answer	Mark
18	<p>D</p> <p>Role of a regulator (1 mark)</p> <p>After a certain amount of profit is earned, the marginal tax rate is 100% (everything is taxed) (1 mark)</p> <p>The company will be allowed to charge a price equal to the average cost of production (1 mark),</p> <p>A 'fair' rate of return on capital is allowed for firms (1 mark) which removes all incentive to make efficiency gains or increase profits (1 mark).</p> <p>Contrast with other forms of regulation (1 mark).</p>	(4)

END OF SECTION A

SECTION B

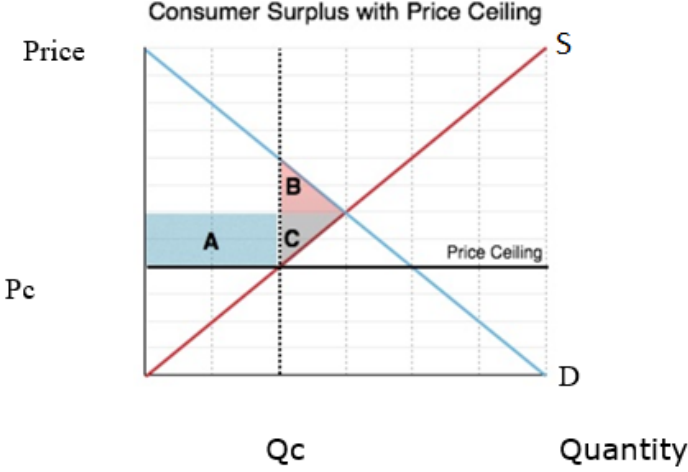
Question Number	Indicative content	Mark
19	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Positive effect on protection of employees:</p> <ul style="list-style-type: none"> • Safety of employees maybe better protected • Trade unions will succeed in securing higher wages in negotiations with government rather than private firms. Rail employees become subject to public sector wage setting. Extension in supply of labour. • Greater job security • Improved integration between state owned rail network and rail operators resulting in rail expansion. • Reduced inequality in pay between employees. • Private sector firms may cut less profitable route whereas government will continue these routes protecting employees <p>Negative effect on protection of employees:</p> <ul style="list-style-type: none"> • 'Maximum wage on executive managers pay' may be implemented – causing shortages with specialist managers • Nationalisation may not 'provide a wider choice'/quality resulting in lower levels of employment • Lack of funds for investment from the government may reduce the long-term attractiveness of railways causing service to be cut in future <p>NB: Allow relevant diagram e.g.</p>	

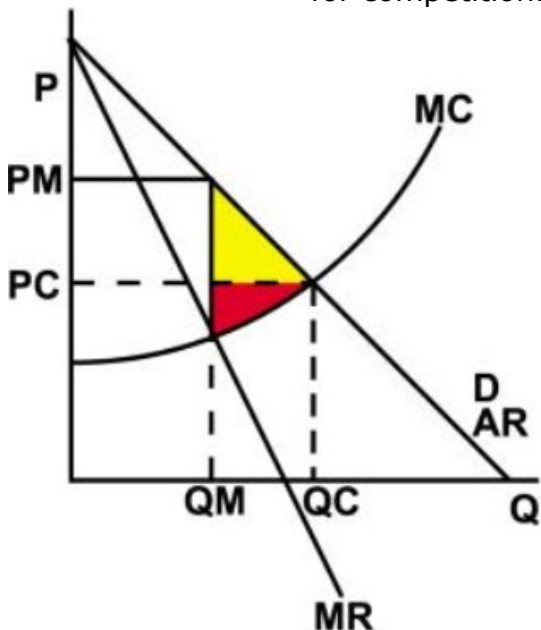
	<p>NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa.</p> <p>NB: for a Level 3 response there must be reference to the context of nationalisation of the rail industry.</p> <p>NB: for a Level 3 response there must be reference to the effect on employees.</p>		(6)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	<p>Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.</p> <p>Use of generic or irrelevant information or examples.</p> <p>Descriptive approach which has no link between causes and consequences.</p>
Level 2	3-4	<p>Displays elements of knowledge and understanding of economic principles, concepts and theories.</p> <p>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.</p> <p>A narrow response or the answer may lack balance.</p>
Level 3	5-6	<p>Demonstrates accurate knowledge and understanding of the concepts, principles and models.</p> <p>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.</p> <p>Economic ideas are applied appropriately to the broad elements of the question.</p>

Question Number	Indicative content	Mark
19 continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Limited effect since many train operators such as East Coast now in the public sector • Rail usage which increased under privatisation may decline causing suppliers profits and employees wages to decline • Public or private sector ownership may make no difference to executive managers pay • Wages may not increase faster under state ownership compared to private sector. • Level of personnel could be cut substantially under nationalisation if the government has to make spending cuts. • Wages may not increase faster under state ownership compared to private sector. <p>NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa.</p> <p>NB: for a Level 2 response there must be reference to employees in context.</p>	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
20	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <p>Methods of government intervention include:</p> <ul style="list-style-type: none"> • Price regulation • Profit regulation • Renationalisation of industry • Performance targets • Quality standards • Providing information to enable switching • Policies to enhance competition between firms e.g. start-up grants • Policies to improve contestability and help small firms • Work of the Competition & Markets Authority regarding abuse of dominant position, anti-competitive agreements or intervening on mergers. <p>NB for a Level 3 response there must be reference to the context of utilities. (Do not award Level 3 if no reference to the data provided or utility industries)</p> <p>NB for a Level 3 response there must be reference to more than one policy and the policy must refer to how it protects consumers.</p> <p>NB for a Level 3 response a diagram is not required but may include for example</p> <div style="text-align: center;">  <p style="color: red; font-weight: bold;">Consumer surplus increases (A-B)</p> </div>	

	<p>Improved allocative efficiency for consumers, surrogate for competition.</p> 	(9)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	<p>Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.</p>
Level 2	4-6	<p>Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.</p>
Level 3	7-9	<p>Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.</p>

Question Number	Indicative content		Mark
20 continued	<p style="text-align: center;">Evaluation 6</p> <ul style="list-style-type: none"> • Criticisms of the likely effectiveness of the policies • Awareness of the problems surrounding their implementation • Recognition that a combinations of approaches may be needed • Different industries may need differing approaches • SR v LR implications • Regulatory capture • Asymmetric information • Regulatory lag • Irrational consumer behaviour • Unintended consequences of government failure e.g lack of innovation, price increases, deteriorating customer service. <p>NB for a Level 3 response there must be reference to the context of utilities.</p>		(6)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.	
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	

Question Number	Indicative content	Mark
21(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4</p> <ul style="list-style-type: none"> • Measures referred to will increase competitiveness by removing imperfect information, addressing asymmetric information, reducing barriers to entry and exit. • Customer database will help producers to directly contact consumers to offer better deals. <i>It may encourage firms to enter the market – the extract refers to recent new entrants having a combined market share of 12% for gas and electricity. Firms may enter as they have more market knowledge of customers for each energy supplier and are permitted to contact them directly offering their service.</i> • Smart meters will increase market information for consumers on their electricity consumption so may seek better deals. <i>Scope exists to enter as 70% of domestic customers of the six largest energy firms on an expensive standard tariff. Smart meters provide more information to customers on energy usage and price / reduce issue of asymmetric information / forcing energy suppliers to become more price competitive.</i> • Price cap for vulnerable customers on pre-paid meters will help limit increases in energy bills and so offer some protection as a surrogate for competition. <i>Price cap may offer some degree of certainty over the price firms could charge / encouraging market entry.</i> • Other evidence from Extract A demonstrates that measures have been successful in the past e.g. new entrants in the market <p>NB: Answers must relate to effectiveness of measures NB: Arguments that the measures are successful may be seen as KAA and unsuccessful as evaluation or vice versa</p>	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
21(a) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Some consumers may still not switch to cheaper energy tariffs / due to problem of computation, inertia or habit. • Customer database may lead to unintended consequences e.g. customer annoyance at telephone calls so they ignore calls, information overload resulting in making it harder to compute to make a decision. • Significant barriers to entry exist in the domestic energy market: large economies of scale/established firms have some customer loyalty / advertising costs / licences required to supply energy. • Price cap is only temporary and covers just 4 million customers / energy prices through pre-paid meters already exceed standard bills. • Price cap may discourage firms from entering the market / as less profit incentive. • Price cap may automatically become the price each company sets and so reduces competition and may increase prices. • CMA found no evidence of anti-competitive practice. 	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
21(b)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <ul style="list-style-type: none"> • Understanding of profit cap (a limit on profits as a percentage of total revenue). Linked development: profit cap is usually introduced in industries where supernormal profits are regarded as excessive / profit cap may be necessary where little competition exists or where collusion is possible. • Chair of CMA recommended 1.25% profit cap against industry return of 7%. Linked development: profit cap is proposed in the retail sector of the energy industry which involves just marketing, billing and metering energy. • Impact on consumers: lower energy bills and so households may be better off in real terms / may increase energy consumption / domestic firms that consume energy may become more competitive due to lower costs of production / rising consumer surplus. • Impact on energy producers: lower revenue and so lower profits / less funds for investment and so risk of energy supplies in future / falling share prices and dividends / change in objective e.g. from profit maximisation to sales maximisation. <p>NB: For Level 3 response candidates must refer to consumers and supplies NB: Negative effects on consumers and producers may be seen as KAA and positive effects as evaluation or vice versa</p>	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
21(b) continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • There may be upward effects on price for consumers as firms become more x-inefficient or reduce total investment. • Depends on the level of profit cap on energy firms / how long it may be applied: if it is 1.25% it may be too harsh compared to other industries such as supermarkets. • It is a vertically integrated industry – so energy companies can make profits in the generation of electricity and gas. • Energy firms appear to have made huge profits over previous years and so may be able to cope with lower profits. • Energy firms may increase sales revenue and so profit values may still be high. • Energy suppliers experience low levels of risk in their retail operations so necessary rewards are lower. • Unintended consequences such as a reduction in new entrants to the industry and less competition, risk of power shortages due to under investment or excess demand. • Multinational owners may use transfer pricing to avoid profit cap. 	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
22	<p style="text-align: center;">Knowledge 2, Analysis 2, Application 2, Evaluation 2</p> <p>Knowledge/understanding: 2 marks for identification of two measures (1+1)</p> <p>Analysis: 2 marks for linked explanation of these measures (1+1)</p> <p>Application: 2 marks for reference to data (1+1), e.g.</p> <ul style="list-style-type: none"> • Fines - GCA can fine supermarkets up to 1% of annual revenue (1) • Regulation to ensure payments made within standard time (1) • Price regulation e.g. minimum pricing – to ensure fair prices are paid for supplies (1) /relevant diagram (1) • Promote new entrants and further competition in supermarket sector (1) • Block mergers if it leads to increased monopsony power (1) <p>Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development e.g.</p> <ul style="list-style-type: none"> • Asymmetric information may lead to regulator making incorrect decisions (1) e.g. too lenient or too harsh on supermarkets (1) • Regulatory capture may arise (1) • Regulator may lack resources to investigate supermarket sector thoroughly (1) • Problems of gaining accurate information from suppliers (1) as they are reluctant to complain (1) • CMA may allow mergers (1) which increase monopsony power of supermarkets (1) • Government may counteract monopsony power by protecting farmers' income e.g. subsidies (1+1) • Problems of minimum price e.g. excess supply/food waste (1) 	(8)

Question Number	Indicative content	Mark
23	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>16 marks for KAA, for effects of increased government intervention.</p> <p>Microeconomic effects may include:</p> <ul style="list-style-type: none"> • Minimum price, living wage enforced, planning issues, tax, health and safety • Rise in wages (if wage floors introduced) will have a large impact on costs. Might be shown on increasing NMW diagram • Effect on price of car washes – consumer surplus falls, output falls, price increases • Impact on quantity of labour/marginal revenue productivity • Impact on productivity • Diagram to show the effect of the intervention approach, e.g. of minimum price as solution to market failure • Price of a car wash might be passed on to higher wages <p>Macroeconomic effects may include:</p> <ul style="list-style-type: none"> • Income equality improvements – may use Gini coefficient or Lorenz curve • Prices rise – inflationary effects • reduction in levels of poverty • effects on growth – inflexibility in markets can reduce I or FDI • might improve environmental standards • Reduced employment <p>NB for a Level 4 response there must be micro and macro effect (s). Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics</p> <p>NB for a Level 4 response there must be reference to an industry</p>	

	<p>9 marks for evaluation – points might include:</p> <ul style="list-style-type: none"> • Government failure, e.g. regulatory capture, asymmetric information • depends on impact of other events such as UK leaving the EU, high unemployment from recent Global Health Crisis • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of HCW market as a whole • consumers might also have increases in wages • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • Wash Mark Certificates not government regulation may have more of an impact in improving quality and conditions for workers and reducing pollution than government action 	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
24	<p>KAA 8 marks</p> <p>Award up to 4 points e.g. 4 + 4 marks, 3 + 3 + 2, 2 + 2 + 2 + 2</p> <p>Difficulties for regulators might include:</p> <ul style="list-style-type: none"> • Lower prices might be concealing high profits <i>but prices might be higher if firms abuse increased monopoly powers</i> • choice might be lowered if the range of products is reduced, fewer players in the market, fewer new ideas <i>but more choice as firms invest in new products knowing the concepts will be protected</i> • Patents can lead to x-inefficiency <i>but reduced competition allows for new innovation, R&D</i> • Difficult to monitor prices as new products and ideas keep coming onto the market <i>but Apple is clearly locking in consumers</i> • International markets difficult to regulate <i>but increased successful claims indicate some ability to cooperate</i> <p>Evaluation (8) may take the form ease of regulation or of disadvantages/advantages of the points made for KAA. Award up to 4 points (2 marks each) or 3 + 3 + 2:</p> <ul style="list-style-type: none"> • difficult to know what this impact will be, for example the US victory might not be translated around the world • game theory might be used to show that Apple's response would vary dependant on other players in the market • depends on what reserves Samsung has – might be able to withstand this easily, or develop new ideas or new markets • for people who have already bought the phones there might be no impact • long and short run effects on consumers. Candidates could use a diagrammatic explanation which could be incorporated in the scheme e.g. monopoly or consumer surplus diagram; the court decision may deter investment leading to lower quality in the long run • legal decision may be over-turned, or not upheld outside US • Comment on the magnitude of the fine, \$1.05 bn, illustrates that regulation is able to bring up large/small fines 	(16)

Question Number	Answer	Mark
25	<p>Role of regulator (1) (might be implicit)</p> <p>KAA 6 marks Award up to 3 problems. (2+2+2) or (3+2+1) or (4+2)</p> <p>Problems regulators might fact might include:</p> <ul style="list-style-type: none"> • Asymmetric information, especially in a worldwide market. • Regulatory capture • Regulatory lag • Hard to prove illegal behaviour (might just be good business sense/barriers to entry are high) • International market – different authorities which might lack the power to investigate in other countries e.g. Dublin and US • Lack of accurate information on how the market will develop and how much power the newly formed firm would have • Costs of regulation, including opportunity cost • Weak power of regulators • Fines do not act as a deterrent <p>Evaluation 6 marks (2+2+2) or (3+2+1) or (4+2) Award up to three evaluation points, which might include:</p> <ul style="list-style-type: none"> • Reasons why regulation might be easy, e.g. regulatory powers have increased in recent years, symmetric information • Regulatory capture can be overcome, e.g. by fines, precedence, media coverage • Not much need for regulation e.g. because the market is providing effective competition or there are economies of scale – is it the distributors or the supermarkets at fault? • Regulation acts as a deterrent even if it does not have a direct effect • The threat of regulation is as much of an effective tool as the regulation itself (and probably the main reason this particular merger did not go ahead, although of course candidates would not be expected to know that) • The volatility of market makes it hard to decide whether profits generated are due to anticompetitive behaviour or favourable harvest • Problems of over-regulation 	(12)

Question Number	Mark scheme	Mark
26	KAA 8 marks e.g. 4 + 4 marks, 3 + 3 + 2, 2 + 2 + 2 + 2 Link to price or availability of high quality milk must be given. Impact of the fine might include: <ul style="list-style-type: none"> • fines will reduce profit so price/availability might change • prices will rise if costs rise e.g. more training costs (Ext 2 para 4) in order to prevent this happening again 	16

- prices may fall if the market becomes more competitive
- it will act as a disincentive, either to collude or to invest in the industry
- curtail growth of international firms,
- government can use revenue of fines to subsidise local firms or give vouchers to consumers
- more smuggling might occur
- risk to babies of increased use of domestic milk? Reduced availability of high quality milk forces consumers to opt for domestic substitutes
- firms may be forced to cut costs e.g. for quality checks
- impact on markets outside China e.g. British consumers have more access to formula milk as exports fall (Ext. 2 para 1)
- foreign firms might pull out of China
- fines on foreign firms may give Chinese firms a gap in the high quality milk market

Evaluation 8 marks e.g. (4 + 4) or (3 + 3 + 2) or (2 + 2 + 2 + 2)

Evaluation points can be the reverse of the above points.

Other points might include:

- Consideration of the size of the fines in relation to the profits made e.g. the impact may not be significant or not at all
- Prices might fall (or the reverse of the above) e.g. as more firms enter the more contestable market
- The firms might become more dominant as only the large firms can bear the fines e.g. the mergers make the market more concentrated
- Consideration of the very low PED for consumers who had only been allowed one child under government rules e.g. the fines will not stop people buying the milk
- Better ways to control the level of foreign imports, e.g. trade barriers as an alternative way to keep foreign imports out, unlikely to affect their image as in such high demand
- Fines alone do not improve domestic provision e.g. it depends on whether the money from the fines is reinvested into Chinese production of milk powder

Question Number	Answer	Mark
27	<p>KAA 4 (may or may not include a definition mark) Definition (1): A patent is a legal protection of a design idea or process (1) or, a kind of copyright (1)</p> <p>Benefits of patents (2+2 or 3 +1) might include: For firms:</p> <ul style="list-style-type: none"> • Helps to develop a competitive advantage via a unique feature • Provides a source of monopoly power • Barriers to entry • Give firms short/medium term abnormal profits • Enables firms to develop into new market <p>Benefits to economy as a whole:</p> <ul style="list-style-type: none"> • Encourage Research and Development • Existing firms can take risks with new idea • New ideas from universities will have practical uses • Innovation is encouraged e.g. dynamic efficiency • Macro benefits, e.g. multiplier effects • Investment in research in turn in the long run may benefit society as a whole e.g. cancer • External benefits e.g. less passive smoking <p>Benefits to other stakeholders:</p> <ul style="list-style-type: none"> • Government benefits e.g. reduced costs of cleaning pavements • Consumer benefits e.g. more choice & improved quality <p>CAP 3 KAA if only one benefit of patents</p> <p>Evaluation (2+2 or 3+1 or 4+0):</p> <ul style="list-style-type: none"> • Patents allow supernormal profits to be made (question of fairness), • Patents stifle competition or innovation by others; • Alternatives to patents might be considered, e.g. subsidies to university research • Crowding out of other innovation • Leading to higher prices or reduced choice • Disadvantages of monopoly • May cause x-inefficiency • Other problems of patents e.g. – cost to achieve, only held for a limited time, not fair to firms who cannot gain them, enforcement issues 	(8)

Question Number	Answer	Mark
28	<p>KAA (6) award up to 3 points (2 marks each) or 3 + 3</p> <p>Identification of types of egg consumers from Figure 2, e.g. foodservice. There must be specific reference to types of consumers, market shares, UK imports eggs (consumes more than it produces), or any use of data (1)</p> <p>award up to 3 points (2 + 2 + 2) or (3 + 3):</p> <ul style="list-style-type: none"> • Consumers: Better quality eggs • Consumers know that hens are not ill-treated - increase in 'consumer welfare' • Reward candidates who offer a standard answer of rising costs and prices • Consumers might have less choice of food as food producers avoid eggs • Food processors/manufacturers using eggs may go out of business, reduce quality or range of products, or see profits fall, as they are unable to raise prices to supermarkets (Ext 4). Prices of food might rise in the long run. • possibility of imported eggs from countries outside the EU • Foodservice users such as bed and breakfast suppliers may have to raise prices and reduce output. <p>Allow answers based on EU regulation in general, apart from the hen cage regulation in passage.</p> <p><i>If no reference to egg consumers in Figure 2 then cap KAA at 5/6</i></p> <p>Evaluation (6) award up to 3 points (2 marks each) or 3 + 3:</p> <ul style="list-style-type: none"> • Consumers may not see much change as eggs are a small proportion of household expenditure. The effect is minimal. • Many consumers already buy eggs that conform to the EU welfare standards, e.g. 44% free range • Because of the monopsony power of supermarkets egg prices are unlikely to rise significantly so the impact on consumers of the new regulation are likely to be minimal. • Eggs might not look/taste any different but the quality might be perceived as being better, e.g. through effective marketing • Farms might cut cost in other areas (e.g. cheaper quality hen feed) so quality for consumer might decline • Investment in cages is a short run, sunk cost. • Depends on the proportion of egg cost in food 	

	<p>manufacture, and the cost of other ingredients might fall</p> <ul style="list-style-type: none"> • Depends on proportion of costs in foodservice - in high end hotels the cost of an egg is likely to be a small proportion of overall costs • Depends on cost difference between eggs outside EU as to the degree to which they might be used to substitute EU eggs • Hard to measure the impact on consumers of happier hens • Allow arguments concerning regulatory failure. 	(12)
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Question Number	Answer	Mark
29(a)*	<p>KAA (6) award up to 3 points (2 marks each) or 3 + 3</p> <p>1 mark definition of tacit collusion. Implied, silent, unspoken, no communication. Saying 'secret' is not enough (this is covert collusion). 1 mark for role of regulator</p> <p>Application: evidence of possible tacit collusion might include: consumer bills double simultaneously, prices rise and fall within weeks of each other, difficult to prove (1+1)</p> <p>Answer must be based on tacit collusion (collaboration is implicit) e.g. <i>implied, unspoken, quiet, unsaid</i> collaboration otherwise cap at 5/6 KAA marks.</p> <p>Problems regulators might face 3 x 2 marks or 2+2+2</p> <ul style="list-style-type: none"> • Hard to find evidence • Lack of spoken or written evidence • Regulatory capture • Conflicting or asymmetric information • Complex information, e.g. The involvement of supermarkets and joint supply of gas and electricity makes comparisons more difficult. • The complexity of the tariffs in particular make it very hard to compare different providers • Conflicting evidence - e.g. it might be markets forces or collusion in an oligopoly • Fear of fines or other control mean that there is strong incentive to conceal collusion. This might be developed using game theory and/or kinked demand theory • Lack of regulator power • Lack of regulator resources • Time/admin costs of regulation • Regulatory lag • Firms will not respond to regulator - unlikely to whistleblow • Consumers are not aware of the problem and do not complain much or understand they have been 'ripped off' • The amount of evidence needed to prove the case may be huge 	

	<ul style="list-style-type: none"> • Many firms have foreign ownership - may be an EU regulator issue. May be a conflict between regulatory authorities. <p>Evaluation (6): 3 x 2 marks or 2+2+2</p> <ul style="list-style-type: none"> • There is a lot of evidence to prove tacit collusion, e.g. sudden price changes • Magnitude of problem of detecting collusion/monopoly power • Maybe tacit collusion does not exist and energy companies are simply following global wholesale prices • Impact of changing exchange rates on costs • Energy prices are only sticky in a downward direction not in an upward direction. • The relative size of the resources available to regulators compared to 'Big Six' energy companies determines the balance of power. • No need for collusion where barriers to entry are so high. • Pricing strategies discussion, e.g. some are illegal and some are not • Tariffs have been simplified - it will be easier to prove from now on • Size of fines/penalties - jail terms and fines of 10% are a strong deterrent (or not) • Internet has made comparisons more easy, e.g. U-Switch • Supermarkets have now entered the market, which can mean non-price competition points become more important, e.g. loyalty points • Game theory may be used to discuss benefits of whistleblowing • Collusion is not a problem to investigate - it is easy to see. 	(12)
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Question Number	Answer	Mark
29(b)*	<p>KAA (8) 2 + 2 + 2 + 2 or fewer points up to four marks each</p> <p>Allow reasons for and against competition or regulation either as KAA or evaluation, depending on the structure of the argument presented.</p> <p>The case for competition rather than price caps might include (free market argument rather than government intervention):</p> <ul style="list-style-type: none"> • Breaking up the size of energy suppliers will lead to price cuts (impact on competition) • Impact of competition on efficiency (this could count as several points) • Encourages more firms to enter energy market (benefits of deregulation) • Benefits of market forces as allowing incentives to invest or innovate • Impact on consumer surplus/consumer welfare • Reduced profits might lead to lower levels of investment in infrastructure or other kinds of investment • Look at global competition rather than just domestic • Problems of price controls e.g. price cap may be difficult to maintain in the long run because of the above inflation rises of wholesale energy prices, or firms will raise prices up to price caps and not be any more efficient than that. <p>Diagrammatic analysis could be included and rewarded.</p> <p>Evaluation (8): 2 + 2 + 2 + 2 or fewer points up to four marks each</p> <p>The case for price caps/regulation rather than competition, or allow other forms of evaluation</p> <ul style="list-style-type: none"> • Benefits of price caps as a surrogate or substitute for competition e.g. in providing incentives to increase efficiency • Discussion of length of term of price cap, and other problems of RPI-X • Examination of vertical integration in the energy market • High barriers to entry/sunk costs means that competition will not work • Competition leads to loss of economies of scale; prices might rise not fall • Discussion of which controls might be the most effective, in the light of the information provided • Discussion of other forms of intervention governments could use, e.g. tax on profits, fines, performance targets. Could count as several factors. 	(16)

Question Number	Answer	Mark
30(a)	<p>Theory 2 marks: Sense of lease, rent or pay-as-you-go (1) Major projects or infrastructure, built by private sector, government uses the resource, long term, 25-30 years, a form of partnership between private and public sector, or public private partnership (1)</p> <p>Application 2 marks: Reference to data (1+1)</p> <ul style="list-style-type: none"> • 700 major items • £70 billion of capital • hospitals • schools • prisons • new roads • private sector takes the risk • PFI pays fines • Olympic Delivery Authority delivered 2012 Games • McAlpine lost £100 million on Dudley hospital • Jubilee Line extension/collapse of Metronet • Fire Control Centre – nine regional sites/£342 million • Contracts cannot be got out of except at high expense • 22 NHS trusts use of PFI for building 	(4)

Question Number	Answer	Mark
<p>30(b) *</p>	<p>KAA (6) Award best 3 factors 2 + 2 + 2 or 3 + 2 + 1 or 3 + 3</p> <ul style="list-style-type: none"> • Projects are high specification, and built on time • Projects arrive more quickly than by traditional procurement processes • Projects are often in supporting health or education which will improve productive capacity, increase economic growth and can therefore be funded out of future incomes that the projects help to generate • Services are guaranteed 20-25 years ahead • Shorter waiting times, better service, efficient use of modern technology or IT • Government spending is reduced in the short run. Opportunity cost arguments, for example in discussing what else the money could be used for • Taxes are lower in the short run • Macro benefits e.g. increased employment, multiplier • PFI firms pay tax which in theory could make the projects cheaper overall for the government • If projects are over-budget the private firm pays the bill, so taxes are lower overall • Lower risk (where consumer is the government) <p>If no application using the data provided then cap the KAA at 5/6 e.g. Olympic Delivery was successful</p> <p><i>Consumers may be regarded as the government or final consumer or both</i></p> <p>Evaluation (6) Award best 3 factors 2 + 2 + 2 or 3 + 2 + 1 or 3 + 3</p> <p><i>Allow a broad range of responses. This may be costs to consumers, or other evaluative approaches.</i></p> <ul style="list-style-type: none"> • Longer patient delays (Extract 2 line 15) • Other service issues (Ext 2) • Infrastructure is not designed to last more than the length of the contract. • Computer project had to be abandoned (Extract 2) • Costs are much higher (with use of data to support this) (Extract 1) • Projects have to be paid for even if they are not used, or built to the wrong specifications e.g. fire 	<p>(12)</p>

	<p>control centres (Extract 1)</p> <ul style="list-style-type: none"> • Higher taxes in future: The costs fall heavily on future generations • Difficult to adjust to changes, e.g. population changes, renegotiating contracts impossible to get out of except at enormous expense (Extract 1) • opportunity cost of projects • consumers as taxpayers may not get value for money or allocative efficiency • answers may be illustrated with welfare loss diagram • short term/long term issues e.g. political benefits in the short run, economic costs in the long run • PFI is a one way bet – either the government picks up the pieces or the government pays costs which are too high, i.e. lower risk to the firm • Collusion in the tendering process? • Government failure: conflicts with other objectives, e.g. through lower worker wages in the private sector, temporary employment contracts 	
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Question Number	Answer	Mark
30(c)*	<p>KAA 8 Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4</p> <ul style="list-style-type: none"> • Price capping (ref Extract 1 final paragraph). Allow as more than one point, e.g. RPI-X and RPI+K • Regulation • Deregulation (ref Extract 1 final paragraph) • Promotion of contestability or removing of barriers to entry, e.g. giving grants and tax breaks to small firms, removing legal barriers • Performance targeting • Privatisation • Competition policy, mergers and acquisition policy, e.g. use of fines • Nationalisation • Entry into wider competition • Contracting out • Rate of return regulation, or profit capping • Windfall tax • Monitoring of prices • Investigation of unfair or anti-competitive behaviour/collusion • The government can increase awareness of inefficiency, by bringing to the public's 	

	<p>attention actions which are likely to damage their reputation. E.g. 'name and shame'</p> <p>Evaluation (8) Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4</p> <ul style="list-style-type: none"> • inconsistency of nationalisation/privatisation • firms do a better job if they know they must sink or swim, so saving firms such as banks means that firms become complacent • efficiency is not always a good thing – does it cost in terms of jobs? • deregulation could be used as an evaluation of regulation, or vice versa. Banks might be a good example. • price capping could be a disincentive for investment, may reduce efficiency in the future • regulatory capture • information asymmetry • other Government failure, e.g. targeting causing problems in other areas, high cost of implementation, administration costs (can count as more than one point) • monitoring targets can fail unless anything is done • allow high should X be, and for how long before it is negotiated • there fines big enough to have any effect? Or are they too big? • natural monopoly arguments <p><i>Do not award reference to PFI in KAA marks, but as a point of reference in evaluation, reference to PFI is permitted.</i></p>	<p>(16)</p>
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Question Number	Answer	Mark
31(a)	<p>Theory (2 marks): Action by firms in contravention of competition law (such as the 1998 Competition Act or the 2002 Enterprise Act) / illegal action (1) which works against public interest/reduces consumer surplus (1), or reduces competition in the market (1). Collusion (1), predatory pricing (1), artificial raising of barriers to entry (1)</p> <p>Application (2 marks): banks agree prices on loans (1), share information on the loan market (1) and pricing of their own loans (1), so that there is a higher interest rates charged to consumers (1), fewer loans are offered (1). Use of text e.g. 'illegally given pricing data' and fine £28m (1 + 1)</p>	(4)

Question Number	Answer	Mark
31(b)	<p>KAA 6 marks Award 3 types/methods of regulation OR 3 types of efficiency for 2 marks each, or 2 x 3 marks, or a combination of the two:</p> <p>KAA marks are to be awarded for two/three reasoned explanations, either in terms of the effects of two/three different types of regulation on efficiency, or the effect of regulation on two/three types of efficiency, rather than for a simple identification of the types of either regulation or efficiency.</p> <ul style="list-style-type: none"> • Possible examples of types of regulation include: monitoring; target setting; price capping (e.g. RPI-X); fines. • Possible types of efficiency include: productive; allocative; dynamic, x-inefficiency, with explanation (not just defined). <p>These points may be illustrated by relevant diagrams, and KAA marks can be awarded for this.</p> <p>Role of competition authorities: to promote competition, to promote the public interest, to increase cost effectiveness (may be implicit) (1 mark)</p> <p>Examples of points might include:</p> <ul style="list-style-type: none"> • How regulation affects costs and pricing e.g. likely to force banks to cut costs (more productive efficiency) by cutting bonuses, • likely to improve allocative efficiency as prices become lower, • increasing consumer surplus as regulators force prices down; • Impact on pay structure, Impact on banks' treatment of SMEs • Economies of scale, if linked to regulation <p>N.b. answers might relate to OFT or Competition Commission, or other regulatory body such as the FSA or banking ombudsman, or direct intervention by government, e.g. punitive tax</p> <p>Evaluation 6 marks</p> <p>Candidates can argue that the regulations are</p>	(12)

	<p>advantageous or disadvantageous as evaluation marks</p> <ul style="list-style-type: none"> • Now that many banks are essentially owned by the taxpayer this might change the objectives of banks • Small businesses are collectively the biggest employer in the UK, or other reasons to support SMEs • Banks should be allowed to recompense their staff in a manner that improves and rewards effectiveness which justifies the higher bonuses • Competition authorities do not have the power to address this issue • Increased regulations will make the market less contestable/efficient • Difficult to decide where $P=MC$ • How big should the fines be • Regulatory capture • Diseconomies of scale as firms have to expand credit to SMEs, separating functions of banks to retail/wholesale • Conflict between quality of service (allocative efficiency) and reduction in costs (productive efficiency) • Firms might lose their best managers if pay is capped • Allow macro arguments if related to efficiency, e.g. banks might move abroad • conflicts inherent in some types of regulation, e.g. rate of return and efficiency • making mergers easier could be seen as decreasing regulation 	
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Question Number	Answer	Mark
32	<p>KAA 4 marks: Award two reasons (2 + 2)</p> <p>Government intervention aims to restore or retain competition (e.g. lower prices, more choice), protect jobs, keep investment within a country, making collusion less likely.</p> <p>Allow macro arguments, e.g. protecting exports, economic growth, balance of payments, multiplier, tax revenue. Also allow political reasoning, such as falling employment will lose the government's voters</p> <p>Evaluation 4 marks (2 +2 or 3+1 or 4+0)</p> <ul style="list-style-type: none"> • There are advantages to inward investment, and mergers may benefit employment prospects if the firm is more secure when merged • such protectionism may encourage inefficiency • The buying of the firm might not change where the firm is located so tax revenues, employment, balance of payments etc. might not change • Government should not be concerned because cross-subsidisation might improve consumer welfare • Only 50% of the business will be sold, so the foreign buyer will not have controlling rights • magnitude of unemployment • reference to frailty in current economic climate 	(8)

Question Number	Answer	Mark
33(a)	<p>2 marks for theory of a patent - legal protection/rights (1) of an idea or process (1) which acts as a barrier to entry (1) or incentive to invest (1) giving property rights/receiving the rewards (1) for a certain period of time (1)</p> <p>2 marks for application e.g. gives RB incentive to invest (1) and innovate without fear of competition from other large pharmaceutical firms meaning that the investment could not otherwise be recouped (1). Gaviscon Original patent expired in 1999 which means there are now many generic substitutes (1) so they can 'legally copy the ingredients' (lines 4-5); RB says it would lose 80% of its revenues (line 19); Gaviscon products could be sold more cheaply or the patent makes the prices higher (1) which would have saved the NHS £40m (1); external benefits of research in pharmaceuticals (1); new patent will last until 2016 (1) or old one expired in 1999 (1) innovation is particularly important in the pharmaceutical industry (1).</p>	(4)

Question Number	Answer	Mark
33(b)*	<p>KAA (6 marks). Award up to 3 factors e.g. (2 + 2 + 2) or (3 + 2 + 1) or (3 + 3)</p> <p>Definition of competition policy or role of OFT or role of Competition Commission e.g. laws or policies aimed at promoting market competition (1)</p> <p>Success of OFT/competition policy:</p> <ul style="list-style-type: none"> • Fines and other penalties ensure that there is competition • Fear of action by OFT may prevent anticompetitive behaviour (i.e. deterrent effect) • Risk of bad publicity might ensure that firms do not restrict competition • Use of case studies to show improved consumer welfare or choice <p>Success of competition policy more generally:</p> <ul style="list-style-type: none"> • New powers since 2002 Enterprise Act • Fines based on up to 3 years' turnover, and managers can go to jail • Allow companies to use market solutions (lines 28-29) • The OFT is reducing the power of patents by reviewing barriers to entry <p>Award application marks, e.g. case studies in Extract 1 or own knowledge</p> <p>Evaluation (6 marks). Award up to 3 factors e.g. (2 + 2 + 2) or (3 + 2 + 1) or (3 + 3). Reasons why competition policy is not successful might include:</p> <ul style="list-style-type: none"> • Regulatory capture (Government failure) • Asymmetric information (Government failure) • If policies are too strict it could discourage investment • Administration costs of competition policy • OFT only covers UK but the firms involved are international • The organisations cannot work separately and are shortly to be merged • Failing of bodies to co-ordinate, within the UK and across international boundaries • Limitations of powers, e.g. reference to failure to regulate banks lines 30-32 	(12)

	<ul style="list-style-type: none"> • Inconsistencies of competition decisions • Burden of proof is on the firms not the OFT, so there are cost and other implications for firms • Limited resources of competition authorities means that they can make only a very limited impact on the level of competition between large and powerful firms • Brand loyalty may limit the success of competition policy • Significant benefits in cost reductions and research have not been seen in practice. Is the policy a lame duck? • Patents reduce success • Suggestion on how competition policy might improve in the future <p>KAA and evaluation marks may be awarded on either side of the case for and against a judgement of competition policy being successful.</p>	
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Question Number	Answer	Mark
34	<p>KAA 4 marks (2 x 2 marks or 1 x 4 marks)</p> <p>Factors might include:</p> <ul style="list-style-type: none"> • Role of Competition Commission (CC)(2 marks) • Application to an industry, this may include airports or airlines (2 marks) • Specific types of regulation or powers of the CC (2 marks) • Enterprise Act 2002 e.g. the CC directs not just advises increased powers to fine 10% revenue for three years, jails term for directors, ability to force sale of assets (2 marks). <p>Evaluation 4 marks (2 x 2 marks or 1 x 4 marks)</p> <ul style="list-style-type: none"> • Award counterarguments to the points above, either for or against regulation • Indication of the problem that faces the authorities in trying to encourage competition e.g. regulatory capture, information asymmetry. This may include reference to the extract. • Time for investigation is too long • Cases need to be referred (selection or time issue) • EC supersedes CC and other issues regarding international regulation • Regulation meant to only be a short term solution until competition is possible • Also reward the arguments offered in Extract 2 as to why regulation and planning would be better • Government failure may reduce effectiveness of regulation • Competition may cause problems outlined above - don't reward a repetition of the answer to 9b 	(8)

END OF SECTION B